

# Austal Ltd

(ASB \$2.89) Buy

EUROZ

Analyst	Date	Price Target
Ben Laird	June 2019	\$3.10/sh ▲ from \$2.93/sh

## Investment case

After meeting with the ASB and reviewing recent public presentations regarding company's prospects for tangible new ship building programs for the US navy we have turned more bullish with regard to our long term forecasts for ASB's US operations. This has driven an incremental increase to our previous price target.

Recently announced LCS and EPF contract extensions provide orderbook visibility out to 2025 and increase our confidence ASB can maintain stronger run rates for longer in the US on solid margins. We now also have increased confidence of our forecast of a significant increase in throughput and margin is in ASB's Australasian operations in the medium term. We see ASB as being in a sweet spot operationally and view our medium term forecasts with upside risk. We also see a longer term rerating opportunity in the stock as the support business grows its earnings contribution to the group.

**We maintain our BUY recommendation with a new price target of \$3.10/sh ▲ from \$2.93/sh previously.**

## Key points

### Incremental upgrade to long term forecasts and valuation

- In recent times the US Navy has flagged several new vessel programs that could materially affect ASB's long term orderbook for both the LCS and EPF vessels
- This has led us to increase our base case forecast of shipbuilding activity in ASB's US operations to a \$1.3-1.4bpa rate vs \$1.0-1.1bpa rate previously
- We now also use a 3% terminal growth rate in our DCF valuation vs 1% previously
- These changes have resulted in an incremental increase to our valuation to \$3.10/sh vs \$2.93/sh previously

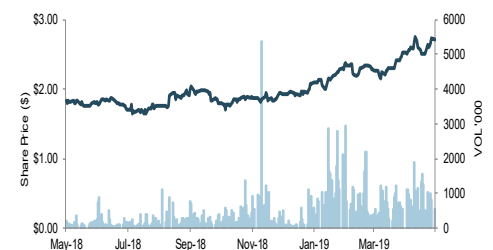
### Bullish US Navy plans lead us to increase long term US forecasts

- In recent presentation material ASB has outlined some key US navy programs that could result in both an uptick in throughput and a boost in the orderbook tail for the US business
- FFG(X) - ASB are currently preparing a proposal to the US navy with an award expected in late CY'20/early CY'21. The budget per vessel could be in the range of US\$800m (vs the current US\$584m cap on LCS vessels) and the requirement could be 2 per annum. Production is slated to commence in CY'21
- EPF variants - 12mths ago ASB's rhetoric around the EPF vessels long term prospects was muted. There has now been a noticeable shift in tone as ASB explores the potential for EPF variants to be used in to support the navy's medical capability but more interestingly the building of the US autonomous vessel fleet. The ultimate shape of the autonomous fleet is fluid but there is potential for up to two EPF variants per annum for 10+ years if certain scenarios play out. Either way the US navy plans to be building boats in CY'22.

Austal Ltd	Year End 30 June	
Share Price	2.89	A\$/sh
Price Target	3.10	A\$/sh
SOP Val	3.10	A\$/sh
WACC	10%	
Terminal Growth	3.0%	
Shares on issue	350.9 m, diluted	
Market Capitalisation	1,014.0	A\$m
Enterprise Value	1,062.5	A\$m
Debt FY'18	185.3	A\$m
Cash FY'18	162.0	A\$m

Key Financials	2018a	2019f	2020f
Revenue (A\$m)	1419.1	1867.2	1638.3
EBITDA (A\$m)	102.3	129.2	139.7
EBIT (A\$m)	65.0	89.2	97.6
Reported NPAT (A\$m)	39.5	56.0	61.8
Normalised NPAT (A\$m)	39.5	56.8	62.7
Gross Cashflow (A\$m)	87.0	96.1	103.9
Capex (A\$m)	-28.9	-40.0	-45.0
Op. Free Cashflow (A\$m)	12.2	4.4	82.0
Revenue Growth (%)	8%	32%	-12%
EBITDA Growth (%)	13%	26%	8%
Norm. NPAT Growth (%)	10%	44%	10%
Normalised EPS (Ac)	11.3	16.2	17.9
Norm. EPS growth (%)	9%	43%	10%
PER (x)	25.6	17.8	16.2
EV:EBITDA (x)	10.4	8.2	7.6
EV:EBIT (x)	16.3	11.9	10.9
DPS (Ac)	5.0	7.3	8.0
Dividend Yield (%)	1.7%	2.5%	2.8%
Net Debt (A\$m)	48.5	32.5	-30.4
Net Debt:Equity (%)	9%	5%	-5%
Interest Cover (x)	12.0	16.2	17.5

## Share Price Chart



## Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

# Austal Ltd

(ASB \$2.89) Buy

## Analysis

### Long Term Forecasts

- Previously, we had forecast that post the run off of ASB's currently contracted EPF vessels, the program ceased in FY'23 and the shipyard continued at a rate of 1 LCS vessel per annum. With the support business that drove circa A\$1.0-1.1bpa revenue from the US
- Recent management rhetoric and public US navy announcements (outlined above) regarding various potential new vessel programs now give us the confidence to bump up our base case long term forecasts to 1 LCS and 1 EPF per annum post FY'23. This implies a long term revenue forecast of \$1.3-1.4b per annum from the US business

### FY'20 Forecasts

Our FY'20 forecasts are unchanged and depicted below:

Austal Group Forecasts to EBIT level by Geography						
	Units	FY18a	1H	2H	FY19f	FY20f
		A\$m	A\$m	A\$m	A\$m	A\$m
US operations						
Revenue	A\$m	1162.7	686.8	779.8	1466.6	1154.8
EBIT	A\$m	83.0	49.1	50.4	99.5	85.8
Australasian operations						
Revenue	A\$m	256.4	169.6	231.0	400.6	423.5
EBIT	A\$m	-8.3	4.1	8.6	12.7	28.5
Corporate EBIT*	A\$m	-9.7	-12.8	-10.2	-23.0	-20.0
<b>Group Revenue</b>	<b>A\$m</b>	<b>1419.1</b>	<b>867.1</b>	<b>1000.1</b>	<b>1867.2</b>	<b>1578.3</b>
<b>Group EBIT</b>	<b>A\$m</b>	<b>65.0</b>	<b>40.4</b>	<b>48.8</b>	<b>89.2</b>	<b>94.4</b>
Group EBIT Margin	%	4.6%	4.7%	4.9%	4.8%	6.0%
<b>EBIT Margins</b>						
US operations						
*US Ship building + Support margin	%	7.5%	7.1%	7.1%	7.1%	7.4%
Support	%	6.5%	7.7%	7.3%	7.5%	7.5%
Segment EBIT Margin%	%	7.1%	7.1%	6.5%	6.8%	7.4%
Australasian operations						
Ship building	%	-6.9%	1.8%	3.5%	2.8%	6.7%
Support	%	5.7%	5.2%	8.2%	6.0%	7.0%
Segment EBIT Margin%	%	-3.2%	2.4%	3.7%	3.2%	6.7%
ASB Group	%	4.6%	4.7%	4.9%	4.8%	6.0%

### Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

## Austal Ltd

(ASB \$2.89) Buy

### Valuation

We maintain our Buy recommendation with a new price target of \$3.10/sh up from \$2.93/sh.

Price Target	Units	Implied Shareprice	Weight	Valuation
NPV	\$/sh	3.60	50%	1.80
SOP blended FY19/20	\$/sh	2.60	50%	1.30
<b>Blended Total</b>	<b>\$/sh</b>			<b>3.10</b>

The components of our new blended valuation approach are outlined below:

#### NPV

We derive a NPV for ASB of \$3.60/sh vs \$3.18 previously

This is driven by our group forecasts and capex forecasts outlined above and in the summary page of this note. We use a WACC of 10.3% and a terminal growth rate of 3% (vs 1% previously).

#### SOP

We apply a FY'20 EV/EBIT multiple to ASB's Shipbuilding and Support division and subtract a NPV of ASB's corporate costs.

<b>SOP Valuation</b>			
<b>Shipbuilding</b>			
EBIT	A\$m	96.0	
EV/EBIT	x	10.0	
<b>Implied EV</b>	<b>A\$m</b>	<b>960.5</b>	
<b>Support</b>			
EBIT	A\$m	22.5	
EV/EBIT	x	12.0	
<b>Implied Value</b>	<b>A\$m</b>	<b>270.4</b>	
<b>SOP Valuation</b>			
Ship Building	A\$m	960.5	
Support	A\$m	270.4	
Corp O/H	A\$m	-261.2	
Net cash(debt)	A\$m	-25.3	
<b>Total market cap</b>	<b>A\$m</b>	<b>944.4</b>	
SOI	m	350.9	
<b>Inferred value per share</b>		<b>2.69</b>	

#### Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

# Austal Ltd

(ASB \$2.89) Buy

EUROZ

Financial Statements	2017a	2018a	2019f	2020f	Performance Ratios	2017a	2018a	2019f	2020f
<b>Income Statement</b>					<b>Growth &amp; Margins</b>				
Revenue	1319.6	1419.1	1867.2	1638.3	Revenue Growth	16%	8%	32%	-12%
Operating Expenses	-1229.4	-1316.8	-1738.0	-1498.7	EBITDA Growth	39%	13%	26%	8%
<b>EBITDA</b>	<b>90.2</b>	<b>102.3</b>	<b>129.2</b>	<b>139.7</b>	EBIT Growth	67%	11%	37%	9%
Depreciation	-30.4	-35.7	-39.1	-41.2	Normalized Net Profit Growth	81%	10%	44%	10%
<b>EBITA</b>	<b>59.8</b>	<b>66.6</b>	<b>90.1</b>	<b>98.5</b>	EBITDA margin	7%	7%	7%	9%
Amortisation	-1.1	-1.6	-0.9	-0.9	EBIT margin	4%	5%	5%	6%
<b>EBIT</b>	<b>58.7</b>	<b>65.0</b>	<b>89.2</b>	<b>97.6</b>	Normalized net profit margin	3%	3%	3%	4%
Abnormals	-11.6	0.3	0.0	0.0	Effective tax rate	61%	31%	31%	31%
Net interest expense	-7.2	-8.5	-8.0	-8.0	<b>Liquidity</b>				
<b>NBPT</b>	<b>39.9</b>	<b>56.8</b>	<b>81.2</b>	<b>89.6</b>	Capex/depreciation (x)	1.8	0.8	1.0	1.1
Tax (expense)/ credit	-24.5	-17.8	-25.2	-27.8	Current ratio (x)	1.8	1.3	1.4	1.5
<b>NPAT</b>	<b>15.4</b>	<b>39.0</b>	<b>56.0</b>	<b>61.8</b>	Quick ratio (x)	1.7	1.5	1.2	1.6
Significant items after tax	0.0	0.0	0.0	0.0	Receivable days	30	24	22	27
Minorities	0.0	0.0	0.0	0.0	Inventory days	-41	-58	-60	-74
Reported NPAT	15.4	39.0	56.0	61.8	Payable days	-6	-2	-2	-2
Analyst adj: g/w & amortisation	0.0	0.0	0.0	0.0	<b>Risk Measures</b>				
Analyst adj: significant items (a/t)	20.7	0.6	0.8	0.9	Dividend Cover (x)	0.7	1.4	1.4	1.4
<b>Normalised NPAT</b>	<b>36.1</b>	<b>39.5</b>	<b>56.8</b>	<b>62.7</b>	Payout ratio (%)	91%	45%	45%	45%
<b>Cash flow (A\$m)</b>	<b>2017a</b>	<b>2018a</b>	<b>2019f</b>	<b>2020f</b>	Net interest cover (x)	13	12	16	17
<b>Pretax profit</b>	<b>39.9</b>	<b>56.8</b>	<b>81.2</b>	<b>89.6</b>	Net debt/equity (%)	10%	9%	5%	-5%
+ Depreciation & Amort	31.5	37.3	40.0	42.1	<b>Returns</b>				
-/+ associates profit/loss	0.0	0.0	0.0	0.0	Return on average capital employed (%)	13%	12%	15%	16%
+ associates dividends	0.0	0.0	0.0	0.0	ROIC	5%	5%	7%	7%
+ Provisions	0.0	0.0	0.0	0.0	ROA %	6%	6%	7%	8%
- Tax Paid	12.2	-7.1	-25.2	-27.8	Return on average equity (%)	3%	8%	10%	10%
<b>Gross Cashflow</b>	<b>83.6</b>	<b>87.0</b>	<b>96.1</b>	<b>103.9</b>	<b>Share Data/Valuation</b>	<b>2017a</b>	<b>2018a</b>	<b>2019f</b>	<b>2020f</b>
- Capital Expenditure	-53.6	-28.9	-40.0	-45.0	<b>Share Data</b>				
- Change in Working Capital	-112.6	-45.9	-51.7	23.1	Issued shares (m)	349	351	351	351
<b>Operating Free Cashflow</b>	<b>-82.6</b>	<b>12.2</b>	<b>4.4</b>	<b>82.0</b>	Weighted ave shares (m)	349	350	351	351
- acq of subs/other investments	0.0	0.0	0.0	0.0	Fully diluted shares (m)	349	350	351	351
+ proceeds from disp of FA/subs	0.1	0.0	0.0	0.0	Basic EPS (c)	4.4	11.1	16.0	17.6
- Dividends Paid	-12.3	-12.8	-11.6	-19.1	YoY change (%)	-118%	153%	43%	10%
+ Equity issued	0.0	0.0	0.0	0.0	Fully diluted EPS (c)	4.4	11.1	16.0	17.6
+/- Other	1.1	0.0	0.0	0.0	YoY change (%)	-118%	153%	43%	10%
Net Cashflow	-93.6	-0.6	-7.2	62.9	Fully diluted normalised EPS (c)	10.3	11.3	16.2	17.9
Opening Net (Debt)/Cash	49.7	-47.9	-25.3	-32.5	YoY change (%)	80%	9%	43%	10%
Closing Net (Debt)/Cash	-43.9	-48.5	-32.5	30.4	Dividend/share (c)	4	5	7	8
<b>Balance Sheet (\$m)</b>	<b>2017a</b>	<b>2018a</b>	<b>2019f</b>	<b>2020f</b>	Franking (%)	100%	100%	50%	50%
Cash	150.5	162.0	152.8	215.7	Gross cashflow/share (c)	24.0	24.9	27.4	29.6
Receivables	91.1	97.3	128.1	112.4	NBV/share (c)	130.7	156.5	169.1	181.3
Inventory	170.4	246.5	324.3	284.6	NTA/Share (c)	128.2	150.5	163.4	175.8
Other financial assets	7.1	7.6	7.6	7.6	<b>Valuation</b>				
Current tax assets	0.7	4.5	4.5	4.5	PER (Basic) (x)	66	26	18	16
Other	2.5	1.6	1.6	1.6	PER (Fully diluted) (x)	66	26	18	16
<b>Total current assets</b>	<b>422.4</b>	<b>519.6</b>	<b>618.9</b>	<b>626.4</b>	PER (Fully diluted, normalized) (x)	28	26	18	16
Equity accounted investments	11.5	12.9	12.9	12.9	P/CFPS (x)	12	12	11	10
Receivables	0.0	0.0	0.0	0.0	Price/NBV (x)	2.2	1.8	1.7	1.6
Property, plant and equipment	500.3	565.7	566.6	570.4	Price/NTA (x)	2.3	1.9	1.8	1.6
Intangibles	8.9	21.0	20.1	19.2	Dividend Yield (%)	1.4%	1.7%	2.5%	2.8%
Other	11.3	21.8	21.8	21.8	Fully diluted normalized 3 yr EPS Cagr (%)	-6%	-5%	41%	20%
Deferred Tax Assets	5.6	7.8	7.8	7.8	PEG ratio (x)	-4.7	-5.1	0.4	0.8
<b>Total non current assets</b>	<b>537.6</b>	<b>629.2</b>	<b>629.2</b>	<b>632.1</b>	EV/EBITDA (x)	11.8	10.4	8.2	7.6
<b>Total assets</b>	<b>960.0</b>	<b>1148.8</b>	<b>1248.2</b>	<b>1258.5</b>	EV/EBIT (x)	18.1	16.3	11.9	10.9
Payables	141.5	177.8	234.7	202.4	EV/Revenue (x)	0.8	0.7	0.6	0.6
Interest bearing liabilities	9.9	72.8	72.8	72.8	NPV (\$/sh)	3.60			
Provisions	60.0	70.1	70.1	70.1	WACC (%)	10%			
Other	27.5	68.3	68.3	68.3	<b>Other Information</b>				
Current tax liabilities	0.0	0.0	0.0	0.0	Major Shareholders:				
<b>Total current liabilities</b>	<b>238.9</b>	<b>389.0</b>	<b>445.8</b>	<b>413.5</b>	Allan Gray				18.6%
Other	64.0	64.3	64.3	64.3	John Rothwell				9.12%
Interest bearing liabilities	186.5	112.5	112.5	112.5	12-mth High/Low (A\$/sh)				1.94/0.93
Provisions	2.9	1.5	1.5	1.5	Average daily volume (A\$m)				2.5
Deferred tax liabilities	10.9	32.5	30.5	30.5	ASX Code				ASB
<b>Total non current liabilities</b>	<b>264.2</b>	<b>210.9</b>	<b>208.9</b>	<b>208.9</b>	Next result				Aug'19
<b>Total liabilities</b>	<b>503.1</b>	<b>599.9</b>	<b>654.8</b>	<b>622.4</b>	<b>Company Description</b>				
<b>Net Assets</b>	<b>456.9</b>	<b>548.9</b>	<b>593.4</b>	<b>636.1</b>	Austal is a West Australian based shipbuilder. The company has operations in Australia, USA, Philippines, Vietnam and China. Austal builds vessels for various military and paramilitary customers as well as commercial and international ferry operators.				
Contributed equity	116.4	118.3	118.3	118.3					
Reserves	91.6	156.7	156.7	156.7					
Accumulated profit / (losses)	248.9	273.9	318.4	361.1					
Non controlling interests	0.0	0.0	0.0	0.0					
<b>Total equity</b>	<b>456.9</b>	<b>549.0</b>	<b>593.4</b>	<b>636.1</b>					

## Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

# Disclaimer

## Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) ("Euroz") only. Euroz is the holder of an Australian Financial Services Licence (AFSL 243302) issued by the Australian Securities and Investments Commission ("ASIC") and is a participant of the Australian Securities Exchange Group ("ASX Group").

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz.

## Disclaimer & Disclosure

Euroz and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

## Analyst Certification

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research.

## Contact Details

**Euroz Securities Limited** +61 8 9488 1400

### Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Andrew Clayton - Resources Analyst	+61 8 9488 1427
Michael Emery - Resources Analyst	+61 8 9488 1430
Ben Laird - Industrials Director	+61 8 9488 1429
Gavin Allen - Industrials Analyst	+61 8 9488 1413
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

### Institutional Sales

Andrew McKenzie - Executive Chairman	+61 8 9488 1407
Rob Black - Managing Director	+61 8 9488 1423
Jay Hughes - Executive Director	+61 8 9488 1406
Russell Kane - Executive Director	+61 8 9488 1426
Simon Yeo - Executive Director	+61 8 9488 1404
Timothy Bunney - Executive Director	+61 8 9488 1461
Peter Schwarzbach - Executive Director	+61 8 9488 1492
Stacy Kitsantas - Institutional Adviser	+61 8 9488 1486

### Private Client Advisers

Chris Webster - Head of Private Clients	+61 8 9488 1412
Ben Statham - Executive Director	+61 8 9488 1417
Brian Bates - Executive Director	+61 8 9346 0314
Cameron Murray - Executive Director	+61 8 9488 1440
James Mackie - Executive Director	+61 8 9488 1416
Lucas Robinson - Executive Director	+61 8 9488 1424
Ryan Stewart - Executive Director	+61 8 9488 1441
Tim Lyons - Executive Director	+61 8 9346 0324
Brett Stapleton - Associate Director	+61 8 9488 1435
Giles McCaw - Associate Director	+61 8 9488 1462
Michael Bowden - Associate Director	+61 8 9346 0307
Richard Gardner - Associate Director	+61 8 9488 1444
Paul Berson - Associate Director	+61 8 9346 0314
Paul Cooper - Associate Director	+61 8 9346 0316
Phil Grant - Associate Director	+61 8 9346 0306
Lauren Walker - Investment Adviser	+61 8 9488 1495
Michael Bartley - Investment Adviser	+61 8 9346 0352
Steve Wood - Investment Adviser	+61 8 9346 0305
Tom Kenny - Associate Adviser	+61 8 9488 1431

### Euroz Securities Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Securities Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.